Thomas M. Suber
President
U.S. Dairy Export Council

Written Testimony

House Agriculture Committee
Subcommittee on Specialty Crops and Foreign Agriculture Programs

June 28, 2001

Mr. Chairman and members of the Subcommittee, I am Tom Suber, president of the U.S. Dairy Export Council (USDEC). I am pleased to appear before you today to testify on the topic of foreign agriculture programs and the dairy industry's successful partnerships with the Department of Agriculture's export enhancement programs. With the exception of the implementation details pertaining to the USDA's export promotion programs, my comments represent a broad consensus among farm and agriculture-related organizations that have participated in a Trade Title Working Group, Subcommittee on Export Assistance and Promotion Programs.

The U.S. Dairy Export Council is a non-profit, independent membership organization that represents the export trade interests of U.S. milk producers, dairy cooperatives, proprietary processors, export traders and their allied industry suppliers. Its sole mission is to increase the volume and value of U.S. dairy product exports. USDEC maintains offices in Mexico City, Tokyo, Seoul, Hong Kong, Shanghai, Brussels, Bangkok, Sao Paulo, Taipei and the Middle East to assist in the export of U.S. dairy products worldwide. USDEC receives the majority of its funds from Dairy Management, Inc., the organization responsible for managing the national farmer-funded dairy promotional assessment known as the check-off. The market promotion programs of USDA's Foreign Agricultural Service provide the Council's next highest source of revenue, followed by the annual dues of our seventy-plus members.

America's dairy industry is the second largest agricultural commodity sector in the United States, measured by farm cash receipts. The 80,000 dairy farmers in the U.S. live in every state of the Union, from Vermont to California, and Florida to Idaho. Dairy is one of the top three agricultural sectors in fully half the states, and almost two-thirds of the members of the House hail from one of these “dairy” states. Internationally, the U.S. is the world’s largest single country producer of cow’s milk.

Impressive as those numbers are, they represent only the milk producer side of the industry; dairy processors, the companies that turn milk into yogurt, cheese, ice cream and milk powder, add overall strength and employment to the impact of the industry as a whole on the country’s economy. In addition, we know that our ability to increase production is limited only by our ability to access new markets. This makes our efforts to market U.S. dairy products for export all the more important to the industry and to the overall rural economy.

While the Export Council is only about five years old, the very fact that it exists indicates a profoundly changed attitude in this important agricultural sector. Before 1995 the industry paid little or no attention to creating new export markets; it relied on government programs to clear inventory. No longer content to depend exclusively upon the government to dispose of its “surplus,” the industry has united behind an ambitious export and global trade reform agenda. We realize we cannot bank our future solely on the domestic market.

As such, dairy is a relative newcomer to international trade, and that trade is still modest in comparison to that of our world competitors. In 2000, the U.S. exported about 5 percent of total U.S. domestic milk production. While U.S. milk production has steadily increased over the last few years, as a share of production, U.S. dairy exports have steadily kept pace.

In 2000 the U.S. exported over $1 billion in assorted dairy products, the second consecutive record-breaking year of foreign sales. While that’s an impressive number, it could be even larger if not for the price depressing export subsidies and high market access barriers of our competitors.

The role of DEIP

The farm and agriculture-related organizations that participate in the Trade Title Working Group, Subcommittee on Export Assistance and Promotion Programs have asked me to highlight the importance of the Dairy Export Incentive Program (DEIP) to our industry.

Part of the Dairy title to the Farm bill, DEIP is not subject to the appropriations process and so is not “scored” by the Congressional Budget Office. However, the authority for DEIP expires in 2002 and must be renewed in the next Farm Bill. DEIP is WTO–compatible and is as well the only vehicle under the Uruguay

Round agreement by which U.S. suppliers can compete in a world dairy commodities market where export subsidies have set artificially low prices.

The two commodities most frequently utilized under DEIP in recent years are skim milk powder and cheese. The annual maximum level of subsidized exports allowed under DEIP for U.S. skim milk powder is about 68,000 metric tons; for cheese, the maximum is about 3,000 tons. In contrast, the European Union can subsidize 290,000 tons of skim milk powder and 360,00 tons of cheese. That simple contrast, in a nutshell, illustrates the crucial importance of this program.

On a milk equivalent basis, the EU accounts for fully 72 percent of the subsidy allowances agreed to in the Uruguay Round; the U.S., which produces two – thirds as much milk as the EU, accounts for just three percent. The use of such heavy export subsidies by our competitors drives down international prices, making the export of U.S. dairy commodities uncompetitive. With a renewal of the DEIP program, U.S. suppliers will be able to compete, albeit to a limited degree.

More important than DEIP's impact on leveling the international playing field is the leverage it provides in negotiating the next agricultural agreement in the WTO. The U.S. dairy industry has openly and repeatedly stated that it is quite ready to accept elimination of the DEIP program as part of dismantling of <u>all</u> agricultural export subsidies. In fact, elimination of export subsidies is the dairy industry's highest priority in the next WTO round. Even the limited reduction of those subsidies included in the Uruguay Round Agreement has demonstrated that when product dumping is limited, world dairy prices do firm up – and result in more competitive U.S. products in the world market.

Despite the impact of our unrelentingly strong dollar, world prices for skim milk powder have now risen to a point just below domestic price levels. Though still lower than U.S. prices, world commodity cheese prices have shown a relatively steady upward trend, as well. Limits on EU subsidies have contributed significantly in both instances. Eliminating export subsidies will enhance considerably the competitiveness of U.S. dairy commodity exports.

The industry is fully prepared to give up the DEIP program in WTO negotiations in exchange for reciprocal concessions. Until then, it is vital that Congress re-authorize the program and direct USDA to use it to the fullest extent domestic market conditions warrant.

USDEC in partnership with USDA

While the DEIP program has been very important to dairy exports, an even more successful illustration of the value of USDA's export promotion programs is the growth in America's unsubsidized dairy exports. In 2000, 82 percent of our record $1 billion dollar exports were unsubsidized dairy products. That's a remarkable shift from 56% of a lower amount in 1995. And one of the primary causes of that growth is the effective partnership the industry has with the Foreign Agricultural Service and its Market Access Program and Foreign Market Development program.

From a standing start five years ago, dairy exports have grown rapidly. Today the U.S. exports more dairy products than it does sports gear, or forklift trucks. In agriculture, less than ten commodities can lay claim to more than a billion dollars in exports.

This success is the result of strong, vertically integrated support from every sector of the dairy and export industries and of our partnership with USDA–managed programs designed to help expand trade.

The dairy industry contributes more than rhetoric to its support of export market development – it brings a significant amount of cold, hard cash to the table as well. First, Dairy Management Inc. commits more than $6 million a year to underwriting market development and generic product promotion programs. In addition, we receive funding through membership dues from dairy cooperatives and corporate entities such as Land O'Lakes and Kraft, as well as export-minded agencies such as trading companies and state departments of agriculture. These dues provide another three-quarters of a million dollars a year to USDEC.

In total, the industry delivers close to $7 million of its own money to its participation as a cooperator in USDA's MAP and FAS programs. Yet, it's clear that the limited funding level of these programs has severely limited the ability of MAP and FMD spending power to keep up with inflation, match the promotional spending of key competitors, and serve the growing number of qualified and motivated U.S. agricultural cooperators. Therefore, we join with the other members of this Trade Title Working Group in urging you to fund the Market Access Program, at the $200 million level and to fund the Foreign Market Development Program at a level of $43.25 million dollars.

Under the WTO's classifications for agricultural domestic support, these two programs are considered "green", or fully unrestricted. They merit full support from a Congress committed to boosting trade and strengthening the well being of the food and agriculture sector. These programs have the added value of requiring each industry to bring matching funds to bear.

The funding constraints have amplified procedural flaws in the process of allocating funds under the program. According to the USDA's published criteria for determining program allocations, the applicant cooperator's industry contribution level is weighted at 40% in the annual recalculation of support levels and past performance accounts for 30%. Growth in exports, as a result, would be supported by growth in support, allowing the cooperator to build on success and expand the positive economic impact of the program.

In actual implementation, however, the results of the formula are difficult to rationalize, especially in how industry contributions are treated. Through USDEC, the industry brings $7 million to its export program; about half of this qualifies under FAS criteria as matching funds. Since the 1996 marketing year, matching funds from the U.S. dairy industry to both the MAP and FMD programs have grown 66%. But the allocations from USDA have grown only 11%and do not reflect dairy's role as a billion dollar export industry. The attached chart shows those industry matches:

§ Over the last six years, the dairy industry's actual match to the Market Access Program has ranged as high as 235% - and has never been lower than 167%.

§ During that same time period, the industry's match to the Foreign Market Development program has been as high as 250%, and never lower than 157%.

§ When the programs are combined and the industry's overall performance in the actual match is considered, dairy has put its money where its mouth is at levels ranging from 166% last year to 214% in 1997.

In terms of total dollars from all sources, last year <u>the industry put up $2.94 for every $1</u> provided by the FAS. That's not an industry match – that's an overwhelming vote of confidence, a landslide of support from an industry facing considerable fair -- and unfair -- market competition. This level of support is matched by outstanding export performance, especially in moving away from a reliance on government export subsidies.

It's possible that the FAS allocation formula on industry match and performance is distorted due to the department's practice of pre-determining total allocations for each of its commodity divisions <u>before</u> the cooperators submit their annual Unified Export Strategy plans outlining industry match and performance. As a result, FAS in effect pre-judges its individual allocations by forcing cooperators within each division to be evaluated just against each other, rather than across the agency.

As uncollegial as it may appear to raise the process by which individual allocations are made, I suspect this topic has been a constant source of anxiety and discussion between each and every cooperator and FAS.

The MAP and FMD programs are vitally important to the U.S. dairy industry. Their ability to contribute to the future export growth of our industry is in serious jeopardy, however, unless Congress authorizes $200 million for the MAP program and $43.25 million for the FMD program.

The FAS Mission

Finally, Mr. Chairman, I would like to touch on the critical role FAS performs in creating and managing our trade programs. FAS has provided significant and effective leadership in coordinating a wide range of food trade programs implemented by U.S. private sector cooperators and other U.S. government agencies. Without a strong and effective FAS, our international trade expansion goals in agriculture, and consequently the health of the entire U.S. food and agricultural community, will remain unfulfilled. In addition, efforts by FAS and U.S. cooperators in this area are constrained by several other factors.

First, FAS employees are and have been heavily overworked due to the continuing lack of resources. Despite an increased number of U.S. cooperators, a growing number of countries seeking to accede to the WTO, new trade agreements to be implemented and new trade negotiations to be conducted, FAS staffing levels have remained more or less unchanged in recent years. The result is an FAS staff only able to react primarily to daily crises, rather than moving ahead proactively on the critical issues that would enhance our country’s ability to expand exports. For this reason, we emphatically echo the National Milk Producers Federation request in testimony before the full House Agricultural Committee in May for an additional $20 million dollars for the budget of the Foreign Agricultural Service to establish a Trade Agreement Monitoring Program. Such a program will greatly enhance America’s ability to monitor our competitors’ compliance with past agreements, as well as to devote sufficient attention to ongoing negotiations.

Mr. Chairman, the singular mission of the U.S. Dairy Export Council is to expand exports of U.S. dairy products. The industry’s coordinated and effective marketing and promotion have achieved excellent progress toward this goal in the past five years. However, many of our marketing efforts with significant potential for increased success are futile to pursue in the face of worldwide high tariffs, non-tariff barriers and / or illegal domestic supports designed to prevent U.S. products from entering a market.

A good example of this is the European Union. While the EU annually exports nearly $800 million dollars worth of dairy products into the United States, the U.S. exports only about $35 million to the EU. The reason for this disparity is not the absence of desire or the lack of an effective marketing strategy on the part of the U.S. – it is multi-dimensional market protection on the part of the European Community. Trade to the EU in dairy and other agricultural commodities is heavily distorted through a quagmire of restrictions and barriers implemented by the EU to protect its domestic agricultural industries. To identify and resolve those constraints we need the talented, but scarce, human resources of the Foreign Agricultural Service to focus more attention on trade policy. Without information regarding domestic subsidy programs, high tariffs, TRQ administration (quota fills), hidden and overt sanitary and phytosanitary barriers, and more, we often can't even form the right questions with which to challenge these illegal European policies.

Although the egregious practices of the EU have made penetration of that market close to impossible, we have successfully initiated multilateral and bilateral negotiations with other nations. However, reaching equitable and reciprocally fair agreements requires detailed analyses of the domestic and market protection practices of countries such as Canada, Brazil, and Japan. You can be sure the embassies of our trading partners are 100 percent devoted to seeking such information regarding our food and agricultural programs. We urge you to support the Foreign Agricultural Service with additional funding and to consider seriously strengthening FAS's resources, both human and monetary, to allow it to devote more attention toward trade policy.

Conclusion

Mr. Chairman and members of the Subcommittee, the dairy industry was part of the earliest foundation of U.S. agriculture. While in the 19th century farmers milked their cows and delivered dairy products to neighbors and customers in a restricted geographic area, the 20th century saw technological advances that expanded both our ability to produce these products and to share them with the world. Glass bottles of milk may no longer be delivered to our back stoops, but American cheeses are consumed by people in Japan and Mexico, whey proteins from the U.S. are exported to Korea for use in sports drinks and infant formula and American ice cream is served in homes and shops from China to Saudi Arabia.

Congress and the Department of Agriculture are to be congratulated for recognizing the importance of international trade to the economy of the agricultural industry in this country, and the Foreign Agricultural Service has been absolutely key to the success the U.S. has established in this area. As globalization continues to shrink the distances and differences between countries, international markets for the products of America's farms have expanded beyond the most optimistic predictions of even ten years ago.

But our success in growing the international trade of America's agricultural products, including dairy, doesn't mean we can stop working to improve on our efforts. Now is not the time for resting on our laurels or for a policy of benign neglect predicated on the assumption that if it works, it's not broken and doesn't need fixing. Success engenders more success only if it is supported with the resources, human and monetary, that growth demands.

We repeat our call to Congress to renew the Dairy Export Incentive Program in the next Farm Bill, to fund the Market Access Program at $200 million dollars and the Foreign Market Development Program at $43.25 million dollars, to expand the ability of the Foreign Agricultural Service to negotiate, implement and monitor fair trade agreements and to address the weaknesses in the FAS allocation process.

These actions are imperative to expanding our growth in agricultural trade, to strengthening our stature in the international marketplace and to assuring the economic health and successful future of America's farming community.

I appreciate the opportunity to testify before you today and will be pleased to answer any questions you might have.

Thank you.